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FISCAL IMPACT STATEMENT

LS 6312 **NOTE PREPARED:** Mar 20, 2008
BILL NUMBER: HB 1001 **BILL AMENDED:** Mar 14, 2008

SUBJECT: State and Local Finance.

FIRST AUTHOR: Rep. Crawford **BILL STATUS:** Enrolled
FIRST SPONSOR: Sen. Kenley

FUNDS AFFECTED: X GENERAL **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: This bill has the following provisions:

(1) Circuit Breaker: This bill provides that for property taxes first due and payable in 2009, the circuit breaker credit is equal to the amount by which a person's property tax liability attributable to the person's: (a) homestead exceeds 1.5%; (b) residential property exceeds 2.5%; (c) agricultural land exceeds 2.5%; (d) long-term care property exceeds 2.5%; (e) nonresidential real property exceeds 3.5%; or (f) personal property exceeds 3.5%; of the gross assessed value of the property that is the basis for determination of the property taxes.

It also provides that for property taxes first due and payable in 2010 and thereafter, the circuit breaker credit is equal to the amount by which a person's property tax liability attributable to the person's: (a) homestead exceeds 1%; (b) residential property exceeds 2%; (c) agricultural land exceeds 2%; (d) long-term care property exceeds 2%; (e) nonresidential real property exceeds 3%; or (f) personal property exceeds 3%; of the gross assessed value of the property that is the basis for determination of the property taxes.

The bill specifies that property taxes imposed after being approved by the voters in a referendum or local public question shall not be considered for purposes of calculating the circuit breaker credit. It provides that for certain eligible counties, property taxes imposed to pay debt service or make lease payments for bonds or leases issued or entered into before July 1, 2008, shall not be considered for purposes of calculating the circuit breaker credit.

The bill also provides that an individual who is at least 65 years of age and who owns a homestead with a gross assessed value of less than $160,000 and who has adjusted gross income of $30,000 (in the case of a single return) or $40,000 (in the case of a joint return) is entitled to a property tax credit to the extent that property taxes on the individual's homestead increase by more than 2% from the prior year.

(2) School Circuit Breaker Replacement Distribution: The bill provides for a grant in 2009 and 2010 to replace a portion of the revenue lost to a school corporation from the application of the circuit breaker credit. A school corporation is entitled to such a grant in a particular year only if it expects to lose more than 2% of its property tax revenue because of application of the circuit breaker credits.

(3) Debt Payment Priority: The bill provides that political subdivisions are also required to fully fund the payment of their debt obligations, regardless of any reduction in property tax collections due to the circuit breaker credit.

(4) Distressed Unit Appeal Board: The bill changes the membership of the distressed unit appeal board and makes changes to the relief available from the distressed unit appeal board. It provides that the distressed unit appeal board may provide that some or all of the property taxes that are being imposed to pay debt and that would otherwise be included in the calculation of the circuit breaker credit shall not be included for purposes of calculating the credit. It also authorizes a distressed political subdivision to petition the Tax Court for judicial review of a final determination of the distressed unit appeal board.

(5) Levy Elimination - Child Welfare, HCI, Juvenile Incarceration: This bill eliminates: (a) medical assistance to wards fund levies; (b) family and children's fund levies; (c) children's psychiatric residential treatment services fund levies; and (d) children with special health care needs county fund levies; (e) the hospital care for the indigent fund levy and a portion of the Health and Hospital Corporation Levy; and (f) the statewide property tax levies imposed for the State Forestry Fund, the State Fair, and Department of Local Government Finance (DLGF) data base management. The bill also provides for the assumption by the state of the amount previously raised by these levies and for the amounts billed to counties for juvenile incarceration.

(6) Levy Elimination - Tuition Support: This bill eliminates school corporation tuition support levies and increases the state tuition distribution by the amount of the terminated tuition support levy.

(7) Tuition Reserve Fund: The bill creates the state Tuition Reserve Fund, abolishes the tuition support account in the state General Fund, and requires a transfer of money from the state General Fund to the state Tuition Reserve Fund.

(8) Levy Elimination - Special Education Preschool Property Tax Levy: The bill provides that a school corporation may not impose a special education preschool property tax levy after December 31, 2008. It requires the Department of Education to make distributions equal to the product of $2,750 multiplied by the number of special education preschool children who are students in the school corporation.

(9) Levy Elimination - Pre-1977 Local Police and Fire Fighter Pension Payments: The bill provides that in 2009 and each year thereafter, the state Pension Relief Fund shall pay to each unit of local government the total amount of pension, disability, and survivor benefit payments from the old police and firefighter funds by the unit. It provides that for property taxes first due and payable after December 31, 2008, the DLGF shall reduce the maximum permissible property tax levy of any civil taxing unit and special service district by the amount of the payment to be made in 2009 by the state for benefits to members (and survivors and beneficiaries of members) of the 1925 Police Pension Fund, the 1937 Firefighters' Fund, or the 1953 Police Pension Fund. It also makes an appropriation to the state Pension Relief Fund. It also provides that

certain interest earned by the Public Deposit Insurance Fund continues to be used to pay local police and firefighter pensions through 2022. (Under current law, the interest would be used for this purpose through 2012.)

(10) Levy-Based Revenue Distributions: The bill provides that for purposes of computing and distributing excise taxes or local option income taxes, the computation and distribution of the excise tax or local option income tax shall be based on the taxing unit's property tax levy as calculated before any reduction due to circuit breaker credits.

(11) Standard Deduction / Supplemental Homestead Deduction: The bill provides that the maximum amount of the standard deduction is the lesser of $45,000 or 60% of assessed value for 2009 and thereafter. The bill also requires the DLGF to adopt rules or guidelines concerning the application for the standard deduction. It also provides an additional supplemental standard deduction for homesteads.

The bill provides that a county auditor may not grant an individual or married couple a standard deduction that the individual or married couple, for the same year, claims on two or more different applications and the applications claim the deduction for different property. A co-op is considered a homestead for purposes of the standard deduction and homestead credit.

(12) PTRC/Homestead Credits: The bill provides additional homestead credits in 2008 of $620,000,000. The bill also provides that in a county that adopted a local option income tax (LOIT) in 2007, the county auditor, with the approval of the county fiscal body may petition the DLGF to permit a portion of the additional 2008 homestead credit to be used instead to increase the additional state-funded homestead credit provided for 2009 or in both 2009 and 2010. It provides $140,000,000 in homestead credits in 2009 and $80,000,000 in homestead credits in 2010.

Beginning in 2009, the bill abolishes property tax replacement credits, state homestead credits (except for the temporary homestead credits in 2009 and 2010), the Property Tax Replacement Fund, and the Property Tax Reduction Trust Fund.

(13) 2007 Homestead Credit: The bill provides that a check issued by a county for a refund of the additional 2007 homestead credit is void if the check is: (a) outstanding and unpaid for 180 days after it is issued; and (b) for an amount that is not more than $10.

(14) Property Tax Installment Payments: The bill provides that a county council may adopt an ordinance to allow a taxpayer to make installment payments of taxes due under a reconciling statement.

(15) Sales Tax Increase: The bill increases the Sales and Use Tax rates from 6% to 7% and adjusts distributions of Sales Tax and Use Tax so that new revenue from the rate increase is deposited in the state General Fund. It also reduces Sales Tax collection allowances for retail merchants.

(16) Revenue Distribution: The bill provides that revenues from sales tax, income tax, and certain wagering taxes formerly deposited in the Property Tax Relief Fund and the Property Tax Reduction Trust Fund are to be deposited in the state General Fund.

(17) Income Tax Deduction for Property Taxes: The bill provides that an individual may claim a deduction for state income tax purposes for property taxes that: (a) were imposed on the individual's principal place of residence for the March 1, 2006, assessment date or the January 15, 2007, assessment date; (b) are due

after December 31, 2007; and (c) are paid in 2008 on or before the due date for the property taxes.

(18) Renter's Deduction: The bill increases the maximum amount of the state income tax deduction for renters from $2,500 to $3,000.

(19) Earned Income Tax Credit: The bill repeals the expiration date for the state earned income tax credit and increases the credit from 6% to 9%.

(20) Lake County LOIT: The bill provides three additional options for the distribution of local option income tax for property tax replacement in Lake County.

(21) LOIT: The bill provides that a county council or county income tax council may in 2008 adopt or increase a LOIT for property tax relief or public safety at any time before January 1, 2009. It provides that a county council or county income tax council may not adopt an ordinance determining that LOIT revenue shall be used to provide local property tax replacement credits at a uniform rate to all taxpayers in the county unless the county council or county income tax council has: (a) made available the county council's best estimate of the amount of property tax replacement credits to be provided to various classes of property; and (b) adopted a resolution or other statement acknowledging that some taxpayers in the county that do not pay the LOIT will receive a property tax replacement credit that is funded with LOIT revenue. It requires a county council or county income tax council to hold at least one public meeting each year at which the county council or county income tax council discusses whether the LOIT for levy replacement should be imposed or increased.

The bill also allows the county council or county income tax council to adopt before October 1 of a year an ordinance changing the purposes for which revenue attributable to the LOIT for property tax relief shall be used in the following year.

(22) LOIT Distribution Information: The bill requires the Department of State Revenue and the Office of Management and Budget to develop certain reports related to local option income taxes. It requires the Department of State Revenue to develop a system of crosschecks between annual withholding tax reports and individual taxpayer W-2 forms. The bill also requires the Office of Management and Budget to submit an informative summary of certain calculations related to the certified distribution of local income taxes to the county council and requires certain information to be included in the informative summary.

The bill requires employers to report to the Department of State Revenue the amount of withholdings attributable to local income taxes each time the employer remits to the department the tax that is withheld. It requires an individual filing an estimated tax return to designate the portion of the estimated tax payment that represents state income tax liability and the portion of the estimated tax payment that represents local income tax liability. It also provides that if an individual requests the payor of a distribution to withhold taxes from the distribution, the individual must designate the portion of the withheld amount that represents state income tax liability and the portion of the withheld amount that represents local income tax liability.

(23) LOIT Distributions: The bill provides that the local property tax replacement credit percentage for a particular year that is funded by a LOIT shall be based on the amount of tax revenue that will be used under the LOIT to provide local property tax replacement credits.

It also provides that a taxpayer that owns an industrial plant located in Jasper County is ineligible for a local property tax replacement credit against the property taxes due on the industrial plant if the assessed value of the industrial plant as of March 1, 2006, exceeds 20% of the total assessed value of all taxable property in the county on that date.

(24) School Appeals: The bill permits a school corporation to appeal to the DLGF to impose a shortfall levy to replace a shortfall in a tuition support levy imposed before 2009.

(25) School New Facilities Adjustment: The bill allows a school corporation to appeal to the DLGF for a new facility adjustment to increase the school corporation's tuition support distribution for the following year to pay increased costs to open: (a) a new school facility; or (b) an existing facility that has not been used for at least three years. It appropriates to the Department of Education from the state General Fund $10,000,000 for FY 2009, to make new facility adjustment distributions that are approved by DLGF.

(26) Levy Appeals: The bill provides that a civil taxing unit's levy appeal in a case where the civil taxing unit cannot carry out its governmental functions may be granted only if the civil taxing unit's inability to carry out its governmental functions is due to a natural disaster, an accident, or another unanticipated emergency

Certain property tax levy appeals are eliminated beginning in 2009. The levy appeal for increased costs to a civil taxing unit resulting from annexation, consolidation, or other extension of governmental services is not eliminated. The bill allows such an appeal in the first year increased costs are incurred and the immediately succeeding four years, and the excessive levy for a year a permanent part of the unit's maximum permissible levy for succeeding years. The bill also eliminates certain exceptions to the property tax levy limits.

The bill provides that a school corporation does not need the approval of the School Property Tax Control Board or the DLGF before holding a referendum concerning a referendum tax levy. A school corporation may hold a referendum on whether a referendum tax levy should be imposed to replace property tax revenue that the school corporation will not receive because of the application of the circuit breaker credit.

(27) Emergency Fire Loans: The bill requires a township board to consider certain factors when determining whether a fire and emergency services need exists requiring the expenditure of money not included in the township's budget estimates and levy.

(28) Township Assessors: Effective July 1, 2008, the bill transfers to the county assessor property assessment duties of township assessors in all townships in which the number of real property parcels is less than 15,000 and in townships in which there is a trustee-assessor. The bill requires a referendum to be held at the general election in 2008 in each township in which the number of parcels of real property on January 1, 2008, is at least 15,000. It specifies that the referendum shall determine whether to transfer to the county assessor the assessment duties that would otherwise be performed by the elected township assessor of the township.

(29) Removal from Office of County or Township Assessor: The bill establishes a procedure for removal from office of county assessors and township assessors who fail to adequately perform the duties of office.

(30) Assessor Certification: The bill provides that a person who runs in an election after January 1, 2012, for the office of county or township assessor must have attained the certification of a Level III assessor-appraiser before taking office. It also specifies that after June 30, 2009, an employee of a county or township assessor who performs real property assessing duties must have attained the level of certification that the assessor is required to attain.

(31) Certification of Appraisers: The bill provides that each appraiser that performs assessments on behalf of a county property assessment contractor must have a Level II assessor-appraiser certification, and requires the DLGF to consider before approving the contract the contractor's experience, training, and number of employees.

(32) Appraisal Contracts: The bill provides that the DLGF must be a party to appraisal and reassessment contracts.

(33) Land Commissions: The bill repeals the county land valuation commission and obsolete provisions.

(34) Assessment Appeals: The bill amends the procedure to obtain a review by the county property tax assessment board of appeals.

The bill also provides that a taxpayer that receives a tax statement or a provisional tax statement for the first installment of property taxes based on the assessment date in 2007 and first due and payable in 2008 may appeal the assessment by filing a notice in writing with the proper assessing official not later than the later of 45 days after the tax statement (or reconciling statement) is given to the taxpayer or July 1, 2008.

(35) Assessment Corrections: The bill provides that if a township assessor determines that the township assessor has made an error concerning: (a) the assessed valuation of property; (b) the name of a taxpayer; or (c) the description of property; in an assessment, the township assessor shall on the township assessor's own initiative correct the error. If such a correction results in a reduction in an assessment, the taxpayer is entitled to a credit on the taxpayer's next tax installment.

(36) Assessment Standards: The bill specifies the method for determining the assessed value of certain agricultural land that has been strip mined. It also makes other changes related to property tax assessment.

(37) Property Tax Data Standards: The bill provides for the distribution to the Legislative Services Agency of policy documents provided to local taxing officials. It also requires written standards for the operation and management of a property tax data base system. DLGF is authorized to adopt temporary rules to revise its rules establishing standards for computer systems used by Indiana counties for the administration of the property tax assessment, billing, and settlement processes. The bill also indicates that certain assessment system software and hardware standards apply to all assessment system software and hardware rules and standards adopted by the DLGF.

(38) Local Budget Review: The bill provides that in counties other than Marion County, if the percentage increase in the proposed budget for a civil taxing unit with an unelected governing body for the ensuing calendar year is greater than the growth allowed under the assessed value growth quotient, the governing body of the civil taxing unit must submit its proposed budget and property tax levy for approval by the county fiscal body or municipal fiscal body. Budgets, levies, and bond issues for taxing units in Marion County with an unelected board must be approved by the city-county council.

(39) Capital Projects Review- Schools: Review by the DLGF and approval by the DLGF are not required before a school corporation may issue or enter into bonds, a lease, or any other obligation if the school corporation's determination to issue or enter into the bonds, lease, or other obligation is made after June 30, 2008. The bill provides that after June 30, 2008, review by the DLGF and approval by the DLGF are not required before a school corporation may construct, alter, or repair a capital project.

(40) Capital Projects Review- Civil: The bill repeals the county boards of tax and capital projects review. The bill also provides that review and approval by the DLGF are not required before a civil taxing unit may issue or enter into bonds, a lease, or any other obligation if the civil taxing unit's determination to issue or enter into the bonds, lease, or other obligation is made after June 30, 2008. After June 30, 2008, review and approval by the DLGF are not required before a civil taxing unit may construct, alter, or repair a capital project. In counties without a county board of tax adjustment, each civil taxing unit that imposes property taxes shall file with the fiscal body of the county in which the civil taxing is located: (a) a statement of the proposed or estimated tax rate and tax levy for the civil taxing unit for the ensuing budget year; and (b) a copy of the civil taxing unit's proposed budget for the ensuing budget year. The bill provides that a county fiscal body shall issue a nonbinding recommendation to a civil taxing unit regarding the civil taxing unit's tax rate or levy or proposed budget.

If a taxing unit's governing body does not consist of a majority of officials who are elected, the governing body may not issue bonds or enter into a lease payable in whole or in part from property taxes unless it obtains the approval of the city or town fiscal body or the county fiscal body (as applicable).

(41) Capital Projects Petitions and Referenda: The bill provides that a capital project is a controlled project if it will cost the political subdivision more than the lesser of $2,000,000 or an amount equal to 1% of the total gross assessed value of property within the political subdivision on the last assessment date (if that amount is at least $1,000,000). A project that is in response to a natural disaster, emergency, or accident that makes a building or facility unavailable for its intended use and that is approved by the county council is not a controlled project for purposes of the referendum process.

The bill provides that a controlled project for a school building for kindergarten through Grade 8 is subject to a referendum if the cost is more than $10,000,000. A controlled project for a school building for Grade 9 through Grade 12 is subject to a referendum if the cost is more than $20,000,000. The bill also provides that other controlled projects with a cost that exceeds the lesser of $12,000,000 or 1% of assessed value (but at least $1,000,000) are also subject to a referendum.

The bill specifies that it takes 100 persons who are either owners of real property within the political subdivision or registered voters residing within the political subdivision or 5% of the registered voters residing within the political subdivision to initiate such a referendum. Controlled projects that are not subject to a referendum are subject to the petition and remonstrance process.

(42) School Bus Replacement: The bill provides that a school bus replacement plan must apply to at least 12 years (rather than 10 years).

(43) School Capital Projects and Facilities Guidelines: The bill requires the State Board of Education (DOE) to adopt administrative rules setting forth guidelines for the selection of school sites and the construction, alteration, and repair of school buildings, athletic facilities, and other categories of facilities related to the operation and administration of school corporations. It requires a school corporation to consider the guidelines and to submit proposed plans and specifications to the DOE, and it requires the DOE to provide written recommendations to the school corporation, including findings as to any material differences between the plans and specifications and the guidelines. The school corporation is to have a public hearing on the plans and specifications, and the DOE is to establish a central clearinghouse containing prototype designs for school facilities.

(44) School Budget Year: The bill provides that beginning in 2010, the budget year for all school

corporations shall be from July 1 of the year through June 30 of the following year.

(45) State Administration of Child Welfare: The bill provides for the assumption by the state of the costs of child welfare services and incarcerating delinquent children in a Department of Correction facility. It provides that payment for child services shall be made not later than 60 days after the date the Department of Child Services receives the service provider's invoice together with a properly prepared claim voucher and documentation.

(46) Children In Need of Services (CHINS) and Delinquent Children: The bill also makes related changes to procedures governing the adjudication of children as children in need of services (CHINS) or as a delinquent child. The bill provides that a copy of a completed case plan concerning a CHINS or a child adjudicated as a delinquent shall be sent to an agency having the legal responsibility or authorization to care for, treat, or supervise the child.

(47) CMHC or CMR/DD Exemptions: The bill provides that the exemptions from the property tax levy limits for certain taxes to fund a community mental health center or community mental retardation and other developmental disabilities center do not apply to a civil taxing unit that did not fund a community mental health center or community mental retardation and other developmental disabilities center in 2008.

(48) TIF Provisions- Revenue: If TIF revenues of an allocation area have been decreased by a law enacted by the General Assembly or by an action of the DLGF below the amount needed to make all payments on obligations payable from tax increment revenues, the governing body of the TIF district may: (a) impose a special assessment on the owners of property in an allocation area; (b) impose a tax on all taxable property in the TIF district; or (c) reduce the base assessed value of property in the allocation area to an amount that is sufficient to increase the tax increment revenues. The bill requires review of these actions by the legislative body of the unit that established the TIF district.

(49) TIF Provisions: The bill prohibits, with respect to bonds payable from property taxes, special benefit taxes, or tax increment revenues, a local issuing body from: (a) issuing refunding bonds that have a repayment date that is beyond the maximum term of the bonds being refunded; or (b) using savings resulting from refunding bonds or surplus proceeds for any purpose other than to maintain a debt service reserve fund, repay bonds, or reduce levies. The local issuing body is to pay interest and principal on bonds on a schedule that provides for substantially equal installment amounts and regular payment intervals, with certain exceptions. The bill provides that (with certain exceptions) the maximum terms for property tax-based obligations are: (a) the maximum applicable period under federal law for obligations issued to evidence loans under a federal program; (b) 25 years for TIF obligations; and (c) 20 years for other property tax-based obligations. It specifies that the need for level principal payments over the term of the obligations, in order to reduce total interest costs, is an exception to the requirement that an agreement for the issuance of obligations must provide for the payment of principal and interest on the obligations in nearly equal payment amounts and at regular designated intervals over the maximum term of the obligations.

The bill provides that certain decisions with respect to TIF allocation areas are to be made by the legislative or fiscal body of the city, town, or county instead of the redevelopment commission or are subject to the approval of the legislative or fiscal body.

The bill repeals provisions concerning: (a) the procedures for amending a resolution previously adopted by a redevelopment commission; and (b) locally funded property tax replacement credits in tax increment financing (TIF) allocation areas. It also makes other changes related to TIF.

(50) Inventory Exemption: The bill converts the 100% property tax deduction for inventory to an exemption by excluding inventory from the definition of personal property subject to property tax, and it repeals property tax credits and exemptions applicable to inventory.

(51) Property Tax Study: The bill requires the DLGF to report to the Commission on State Tax and Financing Policy (CSTFP) regarding: (a) the possibility of eliminating the existing method of assessing and valuing property for the purpose of property taxation; and (b) the use of alternative methods of valuing property for the purpose of property taxation. The bill also requires the CSTFP to study those issues and the following issues and report to the Legislative Council: (a) whether it is reasonable and appropriate to require all counties to use the state-designed software system and (b) alternative methods for distribution of LOITs.

(52) Miscellaneous Provisions: The bill (a) provides that the local government tax control board is not abolished; (b) deletes the expiration date in the provision authorizing a school corporation to use money in its capital projects fund for utility services and insurance; (c) provides that the county auditor's annual statement to political subdivisions and the DLGF for counties with taxing units that cross into or intersect with other counties must include the assessed valuation as shown on the most current abstract of property; (d) adjusts the maximum property tax rates for county cumulative capital development funds and for municipal cumulative capital development funds to reflect the change from 33.33% to 100% of true tax value; (e) makes other changes; and (f) makes appropriations.

Effective Date: Upon passage; July 1, 2007 (retroactive); January 1, 2008 (retroactive); April 1, 2008; May 1, 2008; June 1, 2008; July 1, 2008; January 1, 2009.

Summary of NET State Impact: The following represents the net impact on the state General Fund and Property Tax Replacement Fund for FY 2008 through FY 2010.

Table 1. Net Impact on the General Fund and the Property Tax Replacement Fund ($M).						
	FY 2008		FY 2009		FY 2010	
Provision	**Rev**	**Exp**	**Rev**	**Exp**	**Rev**	**Exp**
Homestead Credit		310.0		380.0		110.0
Eliminate PTRC/Homestead Credits				(1,014.3)		(2,028.5)
School General Fund Levy Takeover **				1,083.8		2,207.6
Add School Appropriation for CB				25.0		60.0
New School Facility Approp				10.0		-
Special Ed Preschool				3.0		6.0
HCI Levies **				52.9		108.3
Child Welfare Levies Takeover **				228.0		469.2
Pre-1977 Police & Fire Pensions #				48.6		-
State Fair/State Forestry/DLGF*				3.9		7.9
GF transfer to Tuition Reserve^				16.6		16.7
Sales Tax (+ 1%)	152.5		937.1		960.0	
Redirect Slot Wagering Tax			27.9		87.5	
Earned Income Tax Credit					(31.7)	
Renter's Deductions			(10.5)		(10.6)	
Eliminate Juvenile Incarceration Billing			(11.4)		(22.8)	
Total	152.5	310.0	943.1	837.5	982.4	957.2
Net Difference	(157.5)		105.6		25.2	

* State Forestry includes an amount distributed to the State Budget Agency for DLGF Database Management.
** Net total expenditures which includes state capture of excise tax revenue.
\# Funds for FY 2010 expenditures to come from Pension Relief Fund in lieu of future appropriations.
^ Total transfer of $50 M covers three fiscal years.

Explanation of State Expenditures: *(5,6,8,9) Levy Elimination*: The state would make distributions to replace the levies that would be eliminated under this bill. It will also forego revenues from counties to help pay for juvenile incarceration. The state's additional net cost (including reduced revenue from the counties) is estimated at $1,426.6 M in FY 2009 and $2,910.8 M in FY 2010.

(2) School Circuit Breaker Replacement Distribution: The bill provides $50 M in CY 2009 and $70 M CY 2010 to local schools to offset their reduction in property tax revenue due to the circuit breaker if their reduction is more than 2% of the affected levies. The distribution is to be allocated only to schools with circuit breaker impacts greater than 2% and is apportioned on the basis of each school's total circuit breaker

impact relative to the total circuit breaker impacts of all schools with reductions greater than 2%. The bill appropriates $25 M in FY 2009, $60 M in FY 2010, and $35 M in FY 2011 to make these distributions.

(5) Levy Elimination- Child Welfare Levies: The bill appropriates the following amounts to FSSA and the Department of Child Services to administer the various child welfare funds: $12,190,358 to cover the medical assistance to wards fund expenses; $239,980,502 to cover family and children's fund expenses; $10,211,920 to cover the children's psychiatric residential treatment services fund expenses; and $5,241,798 to cover the children with special health care needs county fund expenses. (The numbers in the above summary table reflect the capture of excise taxes associated with the eliminated levies.)

Hospital Care for the Indigent (HCI): The bill provides for the transfer of state funds to the state Hospital Care for the Indigent Fund in order to leverage federal Medicaid matching dollars for add-on payments to hospitals, continuing the current HCI payment distribution methodology. The bill repeals certain requirements for applications for assistance and eligibility determinations for the HCI program. The bill annually transfers $40 M to the Health and Hospital Corporation of Marion County to cover its share of HCI expenses and makes a $10 M appropriation in FY 2009 for the first installment payment of this transfer.

State Levies: The bill appropriates $2,552,006 in FY 2009 to the State Forestry Fund and $1,300,385 to the State Fair Fund.

(6) Levy Elimination- Tuition Support: The bill increases the state distribution to local schools for CY 2009 by $2,389.4 M. The increase in the tuition support appropriation for FY 2009 is $1,194.7 M. (The numbers in the above summary table reflect the capture of excise taxes associated with the eliminated levies.) The bill also increases the calendar year tuition support cap for CY 2009 to account for the additional distributions.

(7) Tuition Reserve Fund: Beginning FY 2009, the State Budget Agency is to create the state Tuition Reserve Fund to provide an amount available to schools in years when state tax revenues are insufficient to fully fund the operation of the schools. The bill requires the balance, $316.6 M, of the General Fund Tuition Reserve Account to be transferred to the Tuition Reserve Fund. The state is to make transfers totaling $50 M before December 31, 2010, from the state General Fund into the Tuition Reserve Fund. This additional transfer from the state General Fund would increase the fund balance to $366.6 M for FY 2011.

(8) Levy Elimination- Special Education Preschool Property Tax Levy: The bill would eliminate the Special Education Preschool Levy, about $6 M, for CY 2009. The bill increases the appropriation for the state special education preschool distribution by $3 M for January through June of 2009. (The numbers in the above summary table reflect the capture of excise taxes associated with the eliminated levies.)

(9) Pre-1977 Local Police and Firefighter Pension Payments: The bill provides that in 2009 and each year thereafter, the state Pension Relief Fund shall pay to each unit of local government the total amount of pension payments from the pre-1977 police and firefighter funds. The bill appropriates $48,611,000 from the state General Fund to the state Pension Relief Fund in FY 2009 for the payment of pension, disability, and survivor payments. The estimated additional expenditures from the state Pension Relief Fund in FY 2010 would be $89.1 M. The state Pension Relief Fund currently receives $61.48 M annually in dedicated fund revenues which will continue to be used for these payments. The bill also continues the distributions from the state Pension Distribution Fund through 2022.

(12) PTRC/Homestead Credits: The state currently pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school general fund levies attributable to all property. The state also pays 20% of the

portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and nonbusiness personal property. Homestead credits (HSC) are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

The maximum expenditure for PTRC and HSC is $2,028.5 M in each of CY 2008 and CY 2009. These credits are paid from the Property Tax Replacement Fund (PTRF). In addition, $250 M in supplemental homestead credits will be paid from the Property Tax Reduction Trust Fund in CY 2008 under current law.

In addition to the $250 M in supplemental homestead credits in CY 2008 under current law, this bill would appropriate $620 M from the state General Fund for CY 2008 homestead credits. After CY 2008, the current PTRC and homestead credits would cease. However, the state would fund a new homestead credit in the amount of $140 M in CY 2009 and $80 M in CY 2010.

The overall change in the state's expense for PTRC and Homestead Credits is an increase of $620 M in CY 2008, a reduction of $1,888.5 M in CY 2009, and a reduction of $1,948.5 M in CY 2010. By fiscal year, the overall change is an increase of $310 M in FY 2008, a reduction of $634.3 M in FY 2009, and a reduction of $1,918.5 M in FY 2010.

(19) Earned Income Tax Credit (EITC) - The refundable portion of the EITC that goes to participants in the Temporary Assistance to Needy Families (TANF) Program qualifies as maintenance of effort (MOE) expenditures and contributes toward the state's annual MOE requirement under the TANF Program. It is estimated that refunds of the current 6% EITC could potentially total about $11.0 M to $12.0 M annually. The amount of additional refund amounts that could potentially be claimed by TANF participants is indeterminable.

(22) LOIT Distribution Information: The bill requires the Department of State Revenue (DOR) and the Office of Management and Budget (OMB) to develop a quarterly report, beginning after December 31, 2010, that summarizes the amount of local option income taxes reported and processed for each county. The report is required to be made available to county auditors within 45 days after the end of the calendar quarter.

The bill also requires OMB to provide county councils with an information summary of the calculations used to determine the certified distributions. The summary of calculations must include the following:

(a) The amount reported on individual income tax returns processed by the DOR during the previous fiscal year.
(b) Adjustments for overdistributions in prior years.
(c) Adjustments for clerical or mathematical errors in prior years.
(d) Adjustments for tax rate changes.
(e) The amount of excess account balances to be distributed.

(24) School New Facilities Adjustment: The bill appropriates $10 M to the DOE in FY 2009 to make distributions for new facility adjustments. A school corporation may appeal to the DLGF for a new facility adjustment to increase the school's tuition support distribution for the year of the appeal only. The additional distribution is to pay the increased cost of opening a new school facility or opening an existing facility to provide additional classroom space reduced by a portion of the additional tuition support revenue generated from enrollment in the facility. [The approved new facilities appeals were $11 M for CY 2007 and $10.5 M for CY 2006.]

(30, 31) Certification of Appraisers and Assessors: Each appraiser performing assessments must attain a Level II assessor-appraiser certification, and after June 30, 2009, all local assessor employees who perform real property assessing duties must hold a Level II or Level III assessor-appraiser certification. The DLGF may approve employment under a contract to which the DLGF is a party. There are no data available to indicate how many more people may require training to reach Level II or Level III assessor-appraiser certification. Under current law, only the county and township assessor need to earn this certification. To the extent that classes have excess capacity, the number of instructors will not change. The DLGF may need additional resources for class materials, to track certifications and continuing education hours completed, and to provide contract approval.

Background - Currently, DLGF promulgates rules concerning the employment of contract professional appraisers and gives approval either for a contract with a professional appraiser or for a local unit's decision not to employ professional appraisers as a technical advisor in a general reassessment.

Under current law, the DLGF conducts assessor-appraiser training and provides for the certification and continuing education of assessor-appraisers. A catalogue of classes is available online, and classes are given in six locations throughout the state. The DLGF reports that most classes are not filled to capacity. The DLGF tracks the number of hours of continuing education credit each assessor-appraiser earns. In statute effective January 1, 2008, township assessors elected after June 30, 2008, must complete the Level II assessor-appraiser certification prior to taking office. A county assessor is to take the assessing responsibilities from the township assessor that do not reach that level of certification. In administrative rules, the DLGF requires Level I assessor-appraisers to earn 30 hours of continuing education credits during a four-year cycle and Level II assessor-appraisers to earn 45 hours during a four-year cycle.

(43) School Facility Guidelines: The Department of Education would likely need to add staff to develop guidelines for school facilities construction and alteration and to review school construction projects. Prior to 1995, DOE employed four professional staff to review construction proposals.

Assuming that at least four staff members at $68,033 and one administrative assistant at $30,799 would be needed to perform this function, a portion of the cost would be $421,801 for FY 2009 and $420,428 for FY 2010. The funds and resources required above could be supplied through a variety of sources, including the following: (a) existing staff and resources not currently being used to capacity; (b) existing staff and resources currently being used in another program; (c) authorized, but vacant, staff positions, including those positions that would need to be reclassified; (d) funds that, otherwise, would be reverted; or (e) new appropriations. DOE had 71 vacant positions budgeted for $712,982 as of February 18, 2008. Of the vacant positions, 34 had been vacant for more than two years. DOE reverted about $5.2 M to the state General Fund on June 30, 2007. Ultimately, the source of funds and resources required to satisfy the requirements of this provision will depend upon legislative and administrative actions.

(45, 46) State Administration of Child Welfare; CHINS and Delinquent Children: The bill requires the Department of Child Services (DCS) to assume the costs previously paid by the individual county family and children funds. These expenditures include payment for foster care, adoption subsidies, services, programs, and placements ordered for children adjudicated to be children in need of services delinquent children.

The bill establishes procedures and requirements for the juvenile courts, juvenile probation, and DCS to be used in the determination of services, programs, and out-of-home placements to be provided for CHINS and juvenile delinquents. The bill specifies a procedural process for handling disagreements between the juvenile courts and DCS concerning the need for or alternatives to services, programs, or placements. The bill stipulates the financial responsibility (DCS or the court) for the cost of services, programs, or placements that are in dispute, including those costs incurred during the appeal process.

The bill specifies that DCS is not responsible for any child services costs if a juvenile court orders services, programs, or placement that are not eligible for Title IV-E of the Social Security Act and the services or programs were not recommended or approved by DCS.

The bill specifies that counties remain responsible for all bonds issued and loans made for welfare purposes before January 1, 2009.

Adoption Subsidies: The bill provides that the courts will refer adoption petitions containing requests for financial assistance to DCS for Title IV-E eligibility determinations and for determinations of the amount of assistance, if any, to be provided. The bill allows DCS to adopt rules to prioritize, limit, modify, discontinue, or make additional payments for adoption subsidies for hard-to-place children. The bill provides that the court may not order payment of adoption assistance under this chapter. The bill also provides that DCS subsidy determinations are not subject to administrative review or appeal, but they are subject to judicial review. The bill also provides conditions under which medical subsidies can be provided.

Child Welfare Programs: The bill allows DCS to establish a child welfare program designed to serve groups or categories of children who are, or who are at risk of becoming, homeless, neglected, or abused. DCS reports that they currently offer several child welfare programs as defined in the legislation. These programs are currently funded with a combination of federal, state, local, and dedicated funds. The bill establishes the Child Welfare Program Account consisting of appropriations made for child welfare programs, any part of other DCS appropriations allocated for child welfare programs at the Director's discretion, federal grant funds, and gifts. The bill specifies that an appropriation made for the child welfare program is nonreverting, The bill does not specify any order of assumed expenditures, making it difficult to determine which appropriated funds in the account might otherwise revert.

Regional or District Offices: The bill allows the state to consolidate local offices into regions or districts. The bill specifies that no county may be divided in the determination of a region or district office of the Division of Family Resources or the Department of Child Services. Any savings in operating costs that would accrue to the state would depend on administrative actions.

The bill also provides for the establishment of regional services councils to provide a mechanism for local planning for services provided to CHINS and juvenile delinquents. The bill specifies the minimum membership of the regional services councils and specifies the councils will meet quarterly to develop, review, or revise a strategy for the implementation of an approved plan. The bill also specifies that child protection teams are countywide entities.

Juvenile Offenders: The maximum juvenile informal adjustment period (a form of probation for juvenile offenders) is reduced from 6 to 3 months unless otherwise approved by the juvenile court. The bill specifies the supervision of a child on probation (not informal adjustment) is to be performed only by the probation department, removing any potential responsibility from DCS.

The bill provides that the state will assume the cost of delinquents committed to the Department of Correction (DOC) after January 1, 2009; local reimbursement will decrease between $23 M and $32 M annually due to this provision. The total amount will depend on the number of new juveniles committed to DOC each year. Counties will remain responsible for the costs of juveniles placed in DOC facilities incurred before January 1, 2009. Counties also remain responsible for the the costs of secure detention for juveniles.

(50) Inventory Exemption: Under current law, business inventory is subject to assessment. Beginning with taxes payable in 2007, inventory owners receive a 100% deduction against the assessed value of their inventory. So, the net AV of inventory in all counties is now zero.

This bill would change the definition of personal property to exclude inventory. It would also repeal all inventory deductions and exemptions. There would be no change in the tax base as a result of this proposal.

This bill would reduce the reporting requirements of business taxpayers and would reduce administrative burdens for county assessors, county auditors, and the DLGF. The DLGF currently must prescribe new assessment forms each year. It also must annually set the assessed value of agricultural inventory. The state would realize some savings of resources that are devoted to these functions.

Department of State Revenue - The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the income tax deduction and credit changes in the bill. The DOR's current level of resources should be sufficient to implement these changes. If Lake County opts to distribute LOIT revenue on the basis of where it is collected, the DOR would have to capture additional information at filing. The Department would have to alter forms, databases, and software to capture a “municipality code”. The additional expense is not currently known.

Explanation of State Revenues: *(10) Levy-Based Revenue Distributions*: The bill would have the state receive the auto excise, commercial vehicle excise, and financial institution taxes that were allocated to the school general fund, school special education preschool fund, county medical assistance to wards fund, family and children's fund, children's psychiatric residential treatment services fund, children with special health care needs county fund, and county hospital care for the indigent fund generated before the levy eliminations. The increase in revenue is about $220.3 M for CY 2009 and $226.3 M for CY 2010. The above summary table incorporates the capture of this revenue transfer to the state.

(15) Sales Tax Increase: The changes to the Sales Tax contained in this bill will increase state revenues by approximately $152.5 M in FY 2008, $937.1 M in FY 2009, and $960.0 M in FY 2010.

The bill increases the Sales Tax rate by 1%, from 6% to 7%, beginning April 1, 2008. The April 1, 2008, effective date means that there will be two months of remittances by retailers in FY 2008 (May and June). The bill also changes the distribution formula for Sales Tax revenues as follows.

	Distribution Formula	
	Current	**Under Bill**
PTRF	50.000%	0.000%
State General Fund	49.067%	99.178%
Public Mass Transportation Fund (PMTF)	0.760%	0.670%
Industrial Rail Service Fund (IRSF)	0.033%	0.029%
Commuter Rail Service Fund (CRSF)	0.140%	0.123%
TOTAL	**100.00%**	**100.00%**

The bill repeals the current Property Tax Replacement Fund (effective January 1, 2009) and directs all new revenues from the Sales Tax increase to be deposited in the state General Fund, while holding the other funds "harmless".

The table below shows the impact on the revenue deposited in the funds that are currently part of the Sales Tax distribution formula.

Impact on Funds ($M)									
	FY 2008			FY 2009			FY 2010		
	Current	Under Bill	Change	Current	Under Bill	Change	Current	Under Bill	Change
PTRF	$471.2	$0.0	($471.2)	$2,895.9	$0.0	($2,895.9)	$2,966.4	$0.0	($2,966.4)
State G.F.	$462.4	$1,085.8	$623.4	$2,841.8	$6,673.6	$3,831.7	$2,911.0	$6,836.1	$3,925.0
PMTF	$7.2	$7.3	$0.2	$44.0	$45.1	$1.1	$45.1	$46.2	$1.1
IRSF	$0.3	$0.3	$0.0	$1.9	$2.0	$0.0	$2.0	$2.0	$0.0
CRSF	$1.3	$1.3	$0.0	$8.1	$8.3	$0.2	$8.3	$8.5	$0.2
TOTAL	**$942.3**	**$1,094.8**	**$152.5**	**$5,791.7**	**$6,728.9**	**$937.1**	**$5,932.8**	**$6,892.7**	**$960.0**

The FY 2008 estimates represent a two-month adjusted amount due to the April 1, 2008, effective date of the rate increase. These estimates are based on the December 13, 2007, State Revenue Forecast.

The bill also changes the retail merchant collection allowances to hold "harmless" the amount of revenue received by retailers through the collection allowance after the 1% increase in the Sales Tax rate. This change has the same effective date as the rate increase provisions. The table below shows the current allowance percentages and the new percentages under the bill.

Retailer's Sales Tax Collection Allowance		
Gross Sales Tax Liability	**Current %**	**New %**
Not more than $60,000	0.83%	0.73%
Greater than $60,000, not more than $600,000	0.60%	0.53%
Greater than $600,000	0.30%	0.26%

(16) Revenue Distribution: The bill redistributes:

(a) Sales Tax revenue from the PTRF to the state General Fund, effective May 1, 2008.
(b) Individual Income Tax and Riverboat Wagering Tax revenue from the PTRF to the state General Fund, effective January 1, 2009.
(c) Slot Machine Wagering Tax from the Property Tax Reduction Trust Fund to the state General Fund, effective January 1, 2009.

Under current statute, 49.067% of Sales Tax revenue, 14% of Individual Income Tax revenue, and 37.5%

of Wagering Tax revenue collected from the French Lick casino is distributed to the PTRF. In addition, Wagering Tax revenue collected from the remaining 10 riverboat casinos after local revenue distributions and deductions for Gaming Commission administrative expenses and local revenue sharing is distributed to the PTRF. Slot Machine Wagering Tax revenue from slot machine operations at Hoosier Park and Indiana Downs is currently to be distributed to the Property Tax Reduction Trust Fund.

Redirection of Slot Machine Wagering Tax - The current revenue estimate for the Slot Machine Wagering Tax is $77.9 M in FY 2009 and $87.5 M in FY 2010. However, $50 M of the anticipated FY 2009 tax revenue was appropriated in HEA 1001-2007 for the CY 2008 Homestead Credits. This would leave an estimated $27.9 M in FY 2009 and $87.5 M in FY 2010 which would revert to the General Fund with the repeal of the Property Tax Reduction Trust Fund.

(17) Income Tax Deduction for Property Taxes - The bill increases for certain taxpayers the maximum allowable homeowner's income tax deduction for property taxes paid in tax year 2008 only. The increase in the maximum allowable deduction would apply only to homeowners who pay any or all of their 2006 Pay 2007 property taxes in 2008. This provision will not result in additional revenue loss to the state, but will shift revenue loss that would otherwise occur in FY 2008 (attributable to tax year 2007 AGI tax payments) to FY 2009 (attributable to tax year 2008 AGI tax payments). The precise revenue loss that could potentially be shifted is indeterminable.

(18) Renter's Deduction - The bill increases the maximum renter's deduction under the individual AGI Tax from $2,500 to $3,000 beginning in tax year 2008. The deduction increase is estimated to reduce individual AGI Tax revenue by about $10.5 M in FY 2009. It is estimated that the revenue loss could grow by about 1% annually thereafter.

Under current law, a taxpayer may deduct from state taxable income an amount equal to the total rent paid during a tax year up to $2,500. The rent deducted must be paid on the taxpayer's principal place of residence. In 2005, about 641,000 taxpayers deducted rent totaling approximately $1,476.9 M under the renter's deduction. From 1989 to 2005 the number of taxpayers claiming the deduction increased by almost 0.9% annually. The estimate assumes that all taxpayers currently claiming the deduction will be able to utilize the full increase in the deduction and assumes that the current trend in total deductions persists.

(19) Earned Income Tax Credit (EITC) - The bill increases the EITC under the individual AGI Tax from 6% to 9% of the federal Earned Income Tax Credit beginning in tax year 2009. The bill also repeals the expiration of the EITC under current statute. Currently, the EITC expires December 31, 2011. The credit increase is estimated to reduce individual AGI Tax revenue by about $31.7 M in FY 2010. The revenue loss is estimated to grow by about 7.1% annually thereafter.

In 2005, about 428,000 taxpayers claimed the EITC, with credits totaling about $47.4 M. The number of taxpayers claiming the EITC has grown by an average of 4.3% per year. The total credits claimed by taxpayers has grown by an average of about 7.1% per year.

(29) Removal from Office of County or Township Assessor: If the DLGF finds that work is not properly conducted, or property assessments are not being properly made by a county or a township assessor, the DLGF is to report to the township assessor, the county assessor, and the county council president (or in a county with a consolidated city, the city-county council). The county council president is to inform the board of county commissioners or the city-county council who may adopt an ordinance that the county assessor or the township assessor, by failing to adequately perform official duties, has forfeited the office and is subject

to removal from office. The county prosecutor may file an information for removal from office upon the ordinance's passage. Although the prosecuting attorney does not pay court fees, a losing party may be ordered to pay the costs of $70 for a civil action.

(45, 46) State Administration of Child Welfare; CHINS and Delinquents: Informal Adjustment Program Fees: The bill requires informal adjustment program fees assessed against individuals adjudicated as CHINS to be sent to the state rather than the county user fee fund. This will represent an increase in state revenue of approximately $7,000 per year.

<u>Adoption Fees</u>: The bill provides that adoption fees will now go to the state instead of the county. These fees are to be placed in the Child Trust Clearance Account which is established for that purpose.

<u>Gifts and Bequests</u>: The bill allows DCS to administer and receive gifts, devises, or bequests that are intended to aid children under supervision or care of the department. This revenue is designated for specified purposes as defined by the donors. Funds are to be deposited in the Child Trust Clearance Account.

<u>Creation of New Funds</u>: The bill creates new accounts in the General Fund that will help to pay for certain programs and services DCS offers. They are the Adoption Assistance Account, Child Welfare Program Fund, and the Child Trust Clearance Account.

<u>Explanation of Local Expenditures</u>: *(28) Township Assessors*: Under this proposal, after July 1, 2008, the assessing responsibilities of the trustee-assessor would transfer to the county assessor in townships with less than 15,000 parcels. Trustee-assessors would remain in office and execute other office responsibilities.

After 2009, all township assessing responsibilities will transfer to the county assessor, except in townships that have more than 15,000 parcels and that disapprove the transfer through a referendum. Any change in the number of individual appraisers needed to complete an assessment or reassessment is indeterminate and based on the situation of the individual township and county. Short-term costs may increase to organize and transfer records and tangible property between the township assessor and county assessor.

Elimination of township assessors does not affect any assessment, assessment appeal, or other official action.

Background - Currently, townships with a population of more than 8,000 elect a township assessor. Townships with a population between 5,000 and 8,000 may elect a township assessor if the legislative body of the township adopts a resolution indicating that a township assessor is necessary and the resolution is filed with the county election board. A township trustee in a township with less than 5,000 population serves as the township assessor. In 2000, there were 1,008 township assessors in Indiana, 827 of whom are trustee-assessors. Of the trustee-assessors, 627 did not reach the level of certification required by current statute to retain assessing duties. The assessing duties of these trustee-assessors will transfer to the county assessor as of December 31, 2007.

The 42 townships having more than 15,000 real property parcels are located in the counties shown below.

Number of Townships With More Than 15,000 Real Property Parcels				
County	**No. of Townships**		**County**	**No. of Townships**
Allen	2		LaPorte	1
Bartholomew	1		Madison	1
Clark	1		Marion	8
Delaware	1		Monroe	1
Elkhart	1		Porter	2
Floyd	1		St. Joseph	2
Hamilton	3		Tippecanoe	1
Hendricks	1		Vanderburgh	3
Howard	1		Vigo	1
Johnson	2		Warrick	1
Lake	6		Wayne	1

(41) Capital Projects Petitions and Referenda: Under this provision, the lesser of (a) 100 people who are either voters or property owners or (b) 5% of the voters, may request a referendum on a controlled project that meet the following conditions:

1. An elementary school building, middle school building, or other school building for academic instruction that will cost more than $10 M.
2. A high school building or other school building for academic instruction that will cost more than $20 M.
3. Any other project that will cost more than the lesser of $12 M or 1% of the unit's AV, if the cost of the project is at least $1 M.

The county auditor would be required to verify no more than 125 of the signatures.

The referendum is to be held during a general or primary election unless there is no election within 6 months from when the county auditor certifies the public question. In that case, a special election would be held between 90 and 120 days after the public question is certified.

The increase in costs for approving controlled projects if a referendum is required would probably be minor except in years when no elections are held. The impact of the referendum on capital projects would occur if more projects were disapproved with the referendum process than would otherwise occur with the current petition and remonstrance process. (School corporations request about 50 capital projects annually with a value of about $1.2 B. The number and value of civil unit capital projects is unknown.)

(44) School Budget Year: Schools would switch from a calendar year General Fund budget starting with FY 2011. Schools would be required to adopt a CY 2010 General Fund budget and also an FY 2011 budget.

Schools might incur some additional expense due to the conversion from a calendar year to a fiscal year budget cycle. The fiscal impact of the change would probably be minor and would be funded within school General Fund revenue.

(45, 46) State Administration of Child Welfare; CHINS and Delinquents:

(a) Adoption Subsidies: The bill will shift responsibility for payment from the counties to the state.

(b) Costs of Secure Detention: Counties will still be required under the legislation to pay for all costs of secure detention, other than any costs that are paid from nonpublic funding. These costs include facility costs, costs of detaining children, and services provided.

(c) Delinquent Child Services: The bill adds that if a court places a delinquent child in facilities outside of the state, DCS is not responsible for these costs; rather, the county where a delinquent child resides will be responsible. DCS reports that typically county funds are currently used to finance these costs.

(d) CHINS: The legislation requires DCS to assume the costs associated with CHINS.

(e) Delinquents Committed to DOC: Counties with an outstanding balance prior to January 1, 2009, will still need to pay the amount that they owe the state. As of October 1, 2007, 79 counties still owed the state a combined $46.8 M. The amounts that counties owed ranged from a high of $36 M (Marion County) to a low of $3,660 (Clay County).

(f) Local Offices of DCS: The bill gives control of the county offices to DCS and allows the Department to consolidate offices into regions or districts.

(49) TIF Provisions:

Bonds. Under current law, TIF bonds must mature within 50 years. This bill would reduce the maximum length of bonds issued after June 30, 2008, to 25 years. The 25-year limitation for new bonds could result in larger principal, but smaller interest payments each year. The size of new bond issues and the scope of related projects could be limited by the ability to pay off the bonds in a shorter time frame.

Under current law, bond issues of $3 M or greater that are proposed by a redevelopment commission must be approved by the unit legislative body. After June 30, 2008, the bill would require the unit legislative body to consider all bond issues proposed by the redevelopment commission.

Decision-making Authority. Under current law, redevelopment commissions have authority to permit tax abatements and enterprise zone investment deductions in the allocation area, issue bonds, use eminent domain, and apply for federal grants. Under this bill, the redevelopment commissions would, instead, make recommendations to the county or municipal legislative body that approved designation of the allocation area. Decision-making authority would be transferred to the county or municipal legislative body.

Redevelopment Commissions. Under current law, municipal redevelopment commissions are comprised of five voting members. Three members are appointed by the municipal executive, and two members are appointed by the municipal legislative body. In addition to these members, under the bill, the municipal executive would appoint a nonvoting advisory member. The advisor must be a member of a school board in a school corporation that wholly or partially includes the area served by the commission.

Under current law, county redevelopment commissions are comprised of either five or seven voting members, all of whom are appointed by the county executive. The number of members is determined by county ordinance. Under the bill, the county executive would appoint three members and the county fiscal body would appoint two members for a five-member commission. For a seven-member commission, the county executive would appoint four members and the county fiscal body would appoint three members. In addition to these members, the county executive would appoint a nonvoting advisory member. The advisor must be a member of a school board in a school corporation that wholly or partially includes the area served by the commission.

Under current law, a redevelopment commission can create a TIF district for a maximum of 30 years. The bill reduces the period to 25 years.

Project Area Amendments. Under current law, a redevelopment commission that proposes to amend the resolution or plan must find that (a) the amendment is reasonable and appropriate in relation to the original resolution or plan and the purpose of the statute, and (b) the amended resolution or plan conforms to the unit's comprehensive plan. The commission must conduct a public hearing on the matter.

If the amendment enlarges the allocation area, then under the bill the commission must also find that the existing area does not generate sufficient revenue to meet the obligations of the original project.

AV Reallocation to Taxing Units. Currently, the redevelopment commission must notify the county auditor each year if the taxes payable on the allocated AV will exceed the amount needed to pay obligations and reimburse the county or municipality for expenditures made on the commission's behalf.

This bill would require the redevelopment commission to provide written notice each year to the county auditor, the county or municipal fiscal body, and the fiscal offices of the other taxing units that wholly or partially include the area served by the commission. The notice must state (a) the amount by which the revenues will exceed obligations or (b) that there is no excess.

The bill would require property eligible for tax abatement in the allocation area to have the abatement approved by the legislative body that created the allocation area.

Bond Refinancing. For bonds payable from property taxes, this provision would prohibit the issuer from refinancing the bonds where the new repayment date is later than the maximum term of the original bond. The bill would also prohibit the use of savings resulting from refinancing or the use of surplus proceeds for any purpose other than to maintain a debt service reserve fund, repay bonds, or reduce levies. The impact would depend on the number of bonds refinanced. The bill would result in a net savings for bonds being refinanced.

Bond Payments. The provision would require the bond issuer to pay interest and principal on bonds on a schedule that provides for substantially equal installment amounts and regular payment intervals, with some exceptions. The fiscal impact is unknown. The total cost of a bond increases if principal payments are deferred and decreases if the principal is paid earlier.

Bond Term. This provision limits the maximum terms for property tax-based obligations to 25 years for TIF obligations and 20 years for other property tax-based obligations. The maximum term for obligations issued to evidence loans under a federal program would be the applicable period under federal law. The current number of local bonds with terms longer than the bill limit is unknown. The longer the term of the bond, the lower the annual payments, but the cost of interest is increased.

TIF Background. In 2006, $8.5 B in real property AV and $935 M in personal property AV were tiffed for a total TIF AV of $9.4 B. The net tax (after TIF-funded PTRC) generated by the TIF AV was $229.8 M.

(50) Inventory Exemption: Counties must print property tax returns and furnish them to county taxpayers upon request. Printing costs could be slightly reduced if inventory assessments are removed from the forms. Counties would realize some savings of resources that are devoted to handling property tax returns, especially in cases where inventory-only returns are currently being filed. For the 2002 payable 2003 tax year, there were approximately 170,000 property tax returns filed statewide with reported inventory.

Explanation of Local Revenues: *(1) Circuit Breaker*: Under current law, the property tax circuit breaker credit applies only to homesteads in 2008 and 2009, and all other property in 2010. The credit equals the amount by which net taxes exceed 2% of gross assessed value. The credit is reduced by the amount of the credit that would otherwise be attributable to the school general fund. After 2009, the circuit breaker credit will apply to homesteads at the 2% gross AV threshold and to all other real and personal property at a 3% gross AV threshold.

This bill would make several changes to the circuit breaker credit beginning in CY 2009. There would be no adjustment for credit amounts attributable to the school general fund beginning in CY 2009. Property tax levies for the payment of debt obligations that are approved in a referendum would not count towards the cap. In addition, the portion of a tax bill that is attributable to debt levies in Lake and St. Joseph Counties would be eliminated from the calculation of the credit.

For taxes payable in 2009, the circuit breaker would apply as follows:
1.5% gross AV threshold – Homesteads.
2.5% gross AV threshold – Residential rental property, commercial apartments, long-term care facilities, land under a mobile home, and land used for agricultural purposes.
3.5% gross AV threshold – All other real and personal property.

For taxes payable in 2010 and later, the circuit breaker would apply as follows:
1.0% gross AV threshold – Homesteads.
2.0% gross AV threshold – Residential rental property, commercial apartments, long-term care facilities, land under a mobile home, and land used for agricultural purposes.
3.0% gross AV threshold – All other real and personal property.

In addition, beginning in 2009, the annual increase in the net property tax bill for homestead property with a gross AV under $160,000 that is owned by an individual who is at least 65 years old and has income under $30,000 ($40,000 joint), would be limited to 2%. If the net tax bill would otherwise grow at a rate exceeding 2%, then the taxpayer's circuit breaker credit would be increased to cap the growth at 2%. There would be no adjustments for debt levies for this portion of the credit.

The additional $620 M in additional homestead credits authorized under this bill would reduce homeowners' taxes in CY 2008, thereby reducing the cost of the existing 2008 circuit breaker by an estimated $8.3 M, from a total of $12.2 M down to $3.9 M.

The changes to the structure of the circuit breaker, coupled with the elimination of levies, changes to the standard deduction, and implementation of the supplemental homestead deduction, would result in an increased circuit breaker cost beginning in CY 2009. **The total cost of the circuit breaker credits under the bill is estimated at $229.1 M in CY 2009 and $524.3 M in CY 2010.** The increase in the cost as compared to the estimated cost under current law is estimated at $204.0 M in CY 2009 and $317.6 M in CY 2010. Circuit breaker credits reduce revenue to local civil taxing units and school corporations. Additional credits further reduce revenues. A portion of the circuit breaker credits attributable to school corporations will be offset in CY 2008 and CY 2009 by the supplemental school distributions authorized by this bill.

Note: The bill treats rental property that is used as a principal residence differently from second homes and short-term rentals. When fully implemented, the circuit breaker threshold would be 3.0% if the home is a second home or short-term rental. However, data constraints do not allow identification of non-homestead residential properties as principal rentals or as something other. The reported estimates assume that all non-homestead residential property is subject to the 2.0% threshold (2010.) This may result in inflated circuit breaker cost estimates in some cases.

The bill states that civil taxing units and school corporations must fully fund debt and lease rental payments regardless of any revenue loss realized from the circuit breaker credits. Revenue reductions would be applied to other funds after debt and lease payments are fully funded. In addition, the bill would require the State Treasurer to withhold distributions from a taxing unit and to make debt payments on behalf of a taxing unit that fails to make a payment.

Currently, a unit is distressed if the circuit breaker credit will reduce the unit's levy by at least 2%. Under this bill, a unit would be distressed if the circuit breaker credit would reduce the unit's property tax collections by at least 5%.

(2) School Circuit Breaker Replacement Distribution: The bill provides $50 M in CY 2009 and $70 M CY 2010 to local schools to offset their reduction in property tax revenue due to the circuit breaker if their reduction is more than 2% of the affected levies. The distribution is to be allocated only to schools with circuit breaker impacts greater than 2% and is apportioned on the basis of each school's total circuit breaker impact relative to the total circuit breaker impacts of all schools with reductions greater than 2%.

(5,6,8,9) Levy Elimination: Beginning with taxes payable in 2009, this bill would eliminate the property tax levies for several funds as follows.

Fund or Purpose	Est. 2009 Gross Levy ($M)	Est. 2010 Gross Levy ($M)
State Fair	$ 2.6	$ 2.7
State Forestry*	5.2	5.4
County Family and Children	416.8	440.8
County Children's Psychiatric Residential Treatment Services	17.5	18.7
County Medical Assistance to Wards	13.7	14.3
Children with Special Health Care Needs	8.0	8.4
Hospital Care for the Indigent	105.9	110.7
Local Share of Pre-1977 Police / Fire Pensions	87.2	90.9
County Share of Juvenile Incarceration	22.8	22.8
School General	2,167.6	2,247.6
Pre-School Special Education	6.0	6.0
Total	**$2,853.3**	**$2,968.3**
* State Forestry includes an amount distributed to the State Budget Agency for DLGF Database Management.		

The state would make distributions to replace the levies that would be eliminated.

(8) Levy Elimination- Special Education Preschool Property Tax Levy: The bill would eliminate the special education preschool levy, about $6 M, for CY 2009. The bill increases the appropriation for the state special education preschool distribution by $3 M for January through June of 2009.

(11) Standard Deduction / Supplemental Homestead Deduction: Under current law, homesteads would qualify for a property tax standard deduction equal to the lesser of one-half of the homestead's gross assessed value or $45,000 for taxes payable in 2008, $44,000 for 2009, $43,000 for 2010, $42,000 for 2011, $41,000 for 2012, and $40,000 thereafter. Under this bill, the traditional deduction would equal $45,000 for all years and would be limited to 60% of a home's AV. The bill prohibits an individual or a married couple from receiving more than one standard deduction regardless of the number of properties owned. This provision would add about $3.9 B to the total standard deduction in CY 2009 and $4.9 B in CY 2010.

Under this provision, homesteads would qualify for a supplemental deduction beginning with taxes payable 2009. The supplemental deduction would be determined for each homestead, based on the homestead's net AV after subtracting off the standard deduction. The supplemental deduction would equal 35% of the first $600,000 of net AV plus 25% of any net AV that exceeds $600,000.

The total amount of the supplemental deduction is estimated at $52.3 B for taxes payable in 2009 and $54.8 B for taxes payable in 2010.

(14) Property Tax Installment Payments: Under this proposal, a county that issues reconciling statements could permit taxpayers to make installment payments of taxes due on the statement. The county could specify the installment period. The county and the taxing units within the county would lose interest earnings on the payments that are received later under the program. The impact depends on local action.

(18) Renter's Deduction - Because the increase in the renter's deduction would serve to decrease taxable income, counties imposing local option income taxes could potentially experience a decrease in revenue from these taxes.

(20) Lake County LOIT: Under current law, the LOIT for property tax replacement may be targeted to (a) homesteads, (b) residential property (homestead and rental), (c) all real and personal property, or (d) any combination of the first three options.

This bill provides that Lake County may also determine the distribution method from the following three choices:

> A. The tax revenue may be used to proportionately reduce all property tax levies imposed by the county unit of government;
>
> B. (1) The tax revenue collected from taxpayers within a particular municipality may be used to provide a local property tax credit at a uniform rate against property taxes imposed by that municipality; and (2) The tax revenue collected from taxpayers within the unincorporated area may be used to provide a local property tax credit to taxpayers within the unincorporated area at a uniform rate against the county unit levy; or
>
> C. Sixty percent of the tax revenue would be used the same way as option B. The remaining 40% would be distributed to the county and to townships and municipalities on the basis of population and used to reduce those taxing units' property tax levies.

The total LOIT distribution would not be affected by this provision. However, this bill would shift some of the income tax revenue from the benefit of some taxpayers to the benefit of others. Due to a lack of data identifying the geographical source of the LOIT collections, the shift cannot currently be estimated.

(21) LOIT: Under current law, in addition to traditional CAGIT, COIT, and CEDIT, each county may impose three additional LOIT rates. These are the LOITs for levy replacement (up to 1%), property tax relief (up to 1%), and public safety (up to 0.25%, or 0.5% in Marion County). In 2007, 14 counties adopted one or more of these LOITs.

Currently, the public safety LOIT rate may not exceed the LOIT rate for property tax relief. Under the bill, a county may adopt the public safety LOIT if the combined LOIT rate for levy replacement and for property tax relief is at least 0.25%.

Under this bill, the county council or county income tax council would have the ability to change the use of revenues from the LOIT for property tax relief each year. Redistribution of this revenue between taxpayer classes would affect the net tax due from those classes. Since the different classes have different caps under the circuit breakers, the change in tax bills could affect the amount of circuit breaker credits that would be applicable in the county.

(23) LOIT Distributions: Jasper County Property Tax Replacement Credit - The bill specifies that a taxpayer that owns an industrial plant located in Jasper County is ineligible for a local Property Tax Replacement Credit (LOIT #2) against the property taxes due on the industrial plant if the gross assessed value of the industrial plant as of March 1, 2006, exceeds 20% of the gross assessed value of all taxable property in the county on that date.

One taxpayer has been identified as having just over 20% of the net AV in the county. The credits for this taxpayer are estimated at $1.2 M. This taxpayer would not receive the credits under this provision. They would be distributed proportionately to all other taxpayers in the county under this provision.

The taxing units in Jasper County are projected to have almost no loss of revenue from the circuit breaker credits under this bill. The taxes paid by this taxpayer are well under the circuit breaker threshold. It is unlikely that the loss of the $1.2 M credit would push the taxpayer near or over the threshold. Therefore, there would be no fiscal impact for the taxing units that serve this taxpayer.

(24) School Appeals: The bill would eliminate the current school General Fund appeals for new facilities, transfer tuition starting in CY 2009, and property tax shortfalls starting in CY 2010. The appeals were about $31.2 M for CY 2007 and $31.8 M for CY 2006.

(26) Levy Appeals: Under current law, there are several different excessive levy appeals that are available through December 31, 2009, for civil taxing units. Beginning in 2010, most of these appeals will have been eliminated and replaced with a broad appeal that allows a unit to petition county review boards for an increase in its maximum levy if the unit cannot carry out its governmental functions within the current limit.

Under this bill:

(a) The current appeals would be repealed at the end of 2008 rather than 2009, and the replacement appeal would be effective in 2009;
(b) The appeal due to annexation would not be repealed. It would, however, be modified to allow a phase-in of the levy increase over a period of up to five years;
(c) The appeal for reallocation of PTRC in Goshen would not be repealed;
(d) The appeals for civil taxing units would be heard by the Local Government Tax Control Board.

School Referenda: The bill would allow local schools to hold a referendum without receiving approval from the DLGF. The provision should have no fiscal impact since it still would require voter approval.

(36) Assessment Standards - Strip-Mined Property: Under current law, land that has been stripped for coal is assessed as farmland with a productivity factor of 0.50 if it was stripped before December 31, 1977, and with a productivity factor of 0.68 if stripped after that time.

For taxes payable in 2010 and 2011, this bill would require a change to the productivity factor from 0.50 to 0.75 for land that was stripped prior to December 31, 1977. The assessed value of this land would increase by 50%.

Also for taxes payable in 2010 and 2011, the bill would change the assessment on land stripped after December 31, 1977, that has had the bond or bond equivalent released. The bond is released when the land has been reclaimed or put back to its original state. This land would be assessed as other farmland. The assessment on reclaimed land would increase by 47%.

(42) School Bus Replacement: Under current law, schools are to assume the useful life of a school bus is at least 10 years; the bill would change the requirement to at least 12 years. The bill should reduce the school bus replacement levy. The levy is about $87.2 M, and the reduction would be about 16.7% per year when fully effective.

(45, 46) State Administration of Child Welfare; CHINS and Delinquent Children: The bill will reduce informal adjustment program fees that are deposited into the county user fee fund by approximately $7,000

per year.

(47) CMHC or CMR/DD Exemptions: Under current law, the taxes levied by a county for (a) community mental health centers that were funded by a county before 2002, or (b) community mental retardation and other developmental disabilities centers, are exempt from the county's general maximum levy.

Instead, the levy attributable to community mental health centers is governed by a separate control that is also based on the county's assessed value growth quotient. The portion of the county levy for community mental retardation and other developmental disabilities centers is rate-controlled.

Under the bill, these exemptions would apply only if the county funded the center in 2008. In addition, the levies for either type of center could not grow faster than the county's assessed value growth quotient.

(48) TIF Provisions- Revenue: The elimination of tax levies coupled with the increase in the standard deduction, implementation of the supplemental homestead deduction, and the elimination of PTRC would affect net tax rates. If the net tax rate is reduced in a TIF area, the net TIF proceeds could also be reduced. Currently, the TIF governing body may recover TIF proceeds that were lost due to the 60% PTRC on the school general fund levy through the imposition of a property tax levy.

Under this bill, if TIF proceeds are lost due to the enactment of laws by the General Assembly or actions taken by the DLGF after the TIF area is established, the TIF governing body would be permitted to recover the lost revenue by:

(a) Imposition of a special assessment on the property owners in the TIF area;
(b) Imposition of a property tax levy in the taxing district that includes the TIF district; or
(c) Reducing the base assessed value in the TIF area which would increase the AV allocated to the TIF and increase the tax rate.

Any action by the TIF governing body could only be taken after a public hearing. If the TIF governing body chooses to impose a special assessment or tax levy, the proposal must be submitted to the legislative body of the unit that established the TIF district. The legislative body could (a) reduce or increase the amount of the special assessment or tax or (b) determine that no special assessment or levy be imposed.

State Agencies Affected: DLGF; DOR; State Board of Accounts; State Budget Agency; Treasurer of State; DOE; Family and Social Services Administration; Public Employees' Retirement Fund as administrators of the Pension Relief Fund.

Local Agencies Affected: All.

Information Sources: LSA's Parcel-level assessment and tax data; OFMA Income Tax Databases, 1996-2005; U.S. Internal Revenue Service, Statistics of Income, Tax Stats - Individual Income Tax Return (Form 1040) Statistics, 1996-2000; Consumer Price Index, All Urban Consumers in the Midwest, Rent of Primary Residence; Doug Todd of McCready & Keene, Inc., Actuaries for PERF and the Police and Fire Funds, 317-576-1508; DOR; DLGF- Local Government Database.

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